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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/02 AND ENDING 12/31/02
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

ETG Proprietary Trading, LLC

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

850 Third Avenue, 10th Floor

(No. and Street)

New York

New York

10022

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Michael Alfano

(212) 729-5240

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Rothstein, Kass & Company, P.C.

(Name -- if individual, state last, first, middle name)

85 Livingston Avenue

Roseland

New Jersey

07068

(Address)

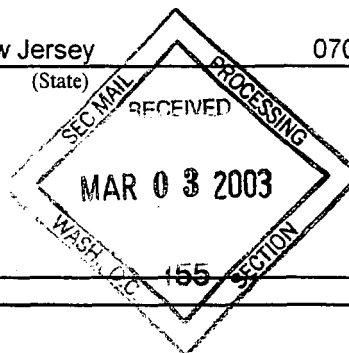
(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions



FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

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FINANCIAL

OATH OR AFFIRMATION

I, Michael Alfano, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ETG Proprietary Trading, L.L.C., as of December 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Michael Alfano
Signature

Controller
Title

[Signature]
Notary Public

NOTARY PUBLIC
Gregg Giaquinto
State of New York
No: 02GI6022092
Expires On 03/22/05

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditor's report on internal accounting control.
- ☐ (p) Schedule of segregation requirements and funds in segregation--customers' regulated commodity futures account pursuant to Rule 171-5.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

ETG PROPRIETARY TRADING, LLC
STATEMENT OF FINANCIAL CONDITION
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2002

ETG PROPRIETARY TRADING, LLC

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INDEPENDENT AUDITORS' REPORT

To the Members
ETG Proprietary Trading, LLC

We have audited the accompanying statement of financial condition of ETG Proprietary Trading, LLC (the "Company") as of December 31, 2002. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of ETG Proprietary Trading, LLC as of December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Rothstein, Kass & Company, P.C.

Roseland, New Jersey
February 7, 2003

ETG PROPRIETARY TRADING, LLC

STATEMENT OF FINANCIAL CONDITION

December 31, 2002

ASSETS

Cash	\$ 47,716
Securities owned, at market	3,545,929
Due from clearing brokers	5,553,195
Equipment, net	21,393
Other assets	<u>334,426</u>
	<u>\$ 9,502,659</u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities

Securities sold, not yet purchased, at market	\$ 2,653,558
Accrued expenses and other liabilities	<u>44,359</u>
Total liabilities	2,697,917

Commitments and contingencies

Members' equity	<u>6,804,742</u>
	<u>\$ 9,502,659</u>

ETG PROPRIETARY TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

1. Nature of operations

ETG Proprietary Trading, LLC (the "Company") was organized under the laws of the State of Delaware as a limited liability company. The Company, which is headquartered in New York City, is a member of the Philadelphia Stock Exchange, Inc. and is registered as a broker dealer with the Securities and Exchange Commission (SEC). The Company is majority-owned by Electronic Trading Group, LLC (ETG), a Managing Member of the Company. The Company primarily engages in the trading of equities, equity options, and futures traded on U.S. exchanges for the Company's proprietary accounts. The use of equity options and futures is limited primarily to hedging strategies.

The Company does not carry accounts for customers or perform custodial functions related to securities. The Company clears its securities transactions on a fully disclosed basis through its clearing brokers.

The Company's member structure includes Class A interests (which includes "Member-Managers"), Class B interests, and Class C interests. The Member-Managers have sole authority to manage the Company. In addition, the Member-Managers shall determine to what extent distributions of profits and capital shall be made to Members.

2. Summary of significant accounting policies

Revenue and Expense Recognition from Securities Transactions

Securities transactions and the related income and expenses are recorded on the trade-date.

Securities Owned and Securities Sold, Not Yet Purchased, at Market

All securities owned and securities sold, not yet purchased are stated at market value and unrealized gains and losses are reflected in revenues.

Equipment

Equipment is stated at cost less accumulated depreciation. The Company provides for depreciation as follows:

Asset	Estimated Useful Life	Principal Method
Office equipment	7 years	Straight-line
Computer software	3 years	Straight-line

Income Taxes

No provision for income taxes has been recorded because the Company is a limited liability company. Accordingly, the individual members report their respective share of the Company's income or loss on their income tax returns. The Company is subject to the New York City Unincorporated Business Tax ("UBT") on its non-trading income generated in New York City. As of December 31, 2002, the Company did not generate taxable non-trading income and, therefore, there was no UBT provision.

ETG PROPRIETARY TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Securities owned and securities sold, not yet purchased

Details of securities owned and securities sold, not yet purchased at December 31, 2002 are as follows:

	Securities Owned	Securities Sold, Not Yet Purchased
Equity securities	\$ 3,522,299	\$ 2,457,325
Options	23,630	196,233
	<u>\$ 3,545,929</u>	<u>\$ 2,653,558</u>

4. Equipment

Details of equipment at December 31, 2002 are as follows:

Office equipment	\$ 14,725
Computer software	<u>12,454</u>
	27,179
Less accumulated depreciation	<u>5,786</u>
	<u>\$ 21,393</u>

ETG PROPRIETARY TRADING, LLC

NOTES TO FINANCIAL STATEMENTS

5. Net capital requirement

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1. This Rule requires the maintenance of minimum net capital and that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and that equity capital may not be withdrawn if the resulting net capital ratio would exceed 10 to 1. At December 31, 2002, the Company's net capital was approximately \$3,711,000, which was approximately \$3,611,000 in excess of its minimum requirement of \$100,000.

6. Exemption from Rule 15c3-3

The Company is exempt from the SEC Rule 15c3-3 and, therefore, is not required to maintain a "Special Reserve Bank Account for the Exclusive Benefit of Customers".

7. Commitment/related party transaction

The Company entered into an agreement with ETG, effective October 1, 2002, in which ETG will provide back office administration, risk management, compliance and accounting services for a one year period to the Company. The agreement, which provides for a \$4,000 monthly fee, will automatically renew for an additional one year term unless terminated with 90 days written notification from either party. In the event ETG exercises its right not to renew, ETG will be obligated to continue to provide services for up to six months during the transition period. Administrative service fees and accrued expenses includes \$12,000 related to this agreement.

8. Off-balance sheet risk

Pursuant to clearance agreements, the Company introduces all of its securities transactions to clearing brokers on a fully-disclosed basis. The Company's money balances and long and short security positions are carried on the books of the clearing brokers. In accordance with the clearance agreements, the Company has agreed to indemnify the clearing brokers for losses, if any, which the clearing brokers may sustain from carrying securities transactions introduced by the Company. In accordance with industry practice and regulatory requirements, the Company and the clearing brokers monitor collateral on the Company's accounts. In addition, the receivables from the clearing brokers are pursuant to these clearance agreements.

In the normal course of business, the Company's activities will involve the execution, settlement and financing of various securities transactions. These activities may expose the Company to off-balance sheet risk in the event the other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.